

# CALIFORNIA HIGH-SPEED RAIL AUTHORITY

## AUDIT DIVISION CHARTER

### **General**

The California High-Speed Rail Authority (Authority) Audit Division provides independent evaluation and consultation services to management and the Authority board. The Audit Division provides objective evaluations, opinions and recommendations concerning operational and programmatic deficiencies and internal and external risks to the organization; strategies for managing organizational risks; and optimization of the internal control environment.

### **Purpose**

The purpose of this Audit Charter is to provide guidance and assistance to the Authority and the Audit Division in fulfilling oversight responsibilities for the financial and operational reporting processes within the Authority. The charter establishes the responsibility of the Audit Division in the areas of organizational risk management, the Authority's system of internal control, and the process for monitoring compliance with laws and regulations governing the Authority's operations.

### **Authority**

Authority is cited in the following regulations:

- Government Code section 13885 *et seq.*
- California State Administrative Manual, Chapter 20000: Section 30 "Internal Audit Organizations"; Section 40 "Audit Standards"; Section 50 "Internal Control"; and Section 60 "Internal Control Reporting".
- Government Code sections 13400 to 13407 – "Financial Integrity and State Manager's Accountability Act of 1983".

### **Mission**

The mission of the Audit Division is to assist management in accomplishing the Authority's strategic objectives by bringing a value-added, risk-based approach to independently review, test, evaluate and improve the effectiveness and efficiency of administrative functions, computer-based information systems and program processes throughout the Authority.

### **Access**

The Audit Division staff are authorized to review, identify risks, and make recommendations for risk mitigation in all areas of the Authority's operations, including but not limited to, contracting processes and contract oversight, personnel practices, procurement practices, fiscal programs and practices, accountability for property, physical security and security of data and information.

The Audit Division staff shall have full, free and unrestricted access to all of the Authority's functions, records, files, information systems, personnel, contractors, physical properties, rental locations, vendors and any other items and staff relevant to the function, process or organizational unit under review.

### **Confidentiality**

Documents and information provided to the Audit Division shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Manager of the Audit Division shall ensure that audit staff is instructed in the handling and safeguarding of confidential information and shall be responsible for maintaining such confidentiality.

### **Objectives and Scope**

#### Auditing Objectives:

The objectives of auditing services performed by the Audit Division are to provide independent assurance that:

- there is an established system of relevant and effective policies and procedures for the performance of duties and functions;
- there is accuracy and reliability in the generation and reporting of data and information from staff to management and management to the Authority Board;
- there is an effective system of authorization and access to Authority data and information and assets and that assets are safeguarded;
- there is an appropriate plan for separation of duties;
- there is effective and efficient operation of administration and program processes; and
- administrative functions and programs are in compliance with prescribed laws and management policies.

#### Scope:

The scope of work of the Audit Division is to determine whether the operational and administrative environment is in conformance with the Authority's current Strategic Plan (Ensure that the Authority has sound internal controls) and is adequate to ensure that:

- programs are operating within the highest fiduciary standards and in accordance with applicable laws and approved policies;
- programs and processes are consistent with governmental best practices;
- legislative and/or regulatory issues are recognized and addressed appropriately;

- operations and processes are consistent with the strategic plan;
- existing policies and procedures are appropriate and updated;
- risks within and outside of the Authority are appropriately identified and managed;
- financial, managerial, and operating information is accurate, reliable, and timely;
- resources are acquired economically, used efficiently, and adequately protected;
- contractors are meeting the objectives of their contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices;
- responsibilities and activities of internal auditors are coordinated with those of external auditors to avoid duplication of efforts;
- appropriate access for auditors and investigators of the state and federal governments is provided; and
- specific operations, processes or programs are reviewed at the request of the Chief Executive Officer (CEO).

### **Independence**

The Audit Division reports administratively to the CEO and functionally to the Authority Board. The CEO is responsible for review and acceptance of draft audit reports, for assignment of draft audit reports to staff to ensure preparation of adequate responses to audit deficiencies, and for ensuring implementation of audit recommendations.

### **Responsibilities and Accountability**

It is the responsibility of the Audit Division to conduct reviews of the Authority's program and administrative control systems to determine if the control systems are operating in accordance with management's instructions, policies, and procedures, and in a manner which supports the attainment of strategic goals and objectives. In addition, the Audit Division is responsible for:

- Reporting the results of examinations to management personnel of sufficient authority to ensure that appropriate action is taken with respect to any deficiency noted;
- Assessing management's action plans proposed to correct reported conditions. If an action plan is considered unsatisfactory, it is the responsibility of the Audit Division to conduct further discussions with program and executive management to achieve satisfactory resolution;
- Coordinating external audit activities;

- Participating as an advisor in the planning, design, development, and implementation of major computer-based systems to determine whether adequate controls are incorporated in the systems; adequate system development life cycle disciplines are followed throughout the project; and system documentation is complete and accurate;
- Participating in the initial stages of major new non-technology projects so that risks can be appropriately identified and managed and to ensure that internal controls are incorporated in the design phase;
- Submitting annual audit plans to the CEO and the Board for review and approval, and reporting regularly on progress toward implementation of annual plans;
- Reporting to the CEO and the Board as to whether appropriate action has been taken on audit findings; whether audit activities have been directed toward the areas of highest exposures to risk with an emphasis on increasing efficiency, economy, and effectiveness of operations and attainment of program objectives; whether internal and external audits are coordinated so as to avoid duplication; whether audit plans are adequate; and whether there are any restriction to access.
- Reporting to the appropriate state entity any audit findings that may be considered material and/or egregious and reporting to the CEO and the Board and the appropriate division chiefs to provide an update on corrective actions and to notify them of any uncorrected deficiencies in their respective operational areas.
- The Manager of the Audit Division is responsible for convening quarterly meetings of the CEO and division chiefs whose divisions have any uncorrected findings or conditions included in the audit follow-up to update corrective action status thereby allowing the CEO to better ensure prompt corrective action by all responsible parties.

### **Professional Standards**

The Audit Division shall adhere to the following professional standards:

- International Professional Practice Framework (IPPF) which states that the Definition of Internal Auditing, the Code of Ethics, and the Standards and Interpretations are mandatory (Section 1010).
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable.
- Other professional standards as recommended or required by the Office of Audits and Evaluations (Department of Finance), the Bureau of State Audits and/or other State control agencies that may be applicable.

In addition to the formal professional audit standards referenced above, staff of the Authority's Audit Division shall adhere to the ethical rules and principles in the Appendix to this charter.

**Relationship to the Risk Management and Internal Control Programs**

The Audit Division will aid management by evaluating its risk management system during each audit and consulting engagement. The Audit Manager will ensure that reports of any existing operational risks and mitigation efforts are made to the executive management of the Authority in conformance with the performance measures and strategies identified in the Authority's current Strategic Plan.

**Approval**

This Audit Division Charter is transmitted to the Chair of the Board and the Chief Executive Officer and is effective upon approval by the Chair of the Board and the Chief Executive Officer on the date indicated below.

Approved

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Chief Executive Officer

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Date

Approved:

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Chair, Authority Board

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Date

## **INTERNAL AUDITING**

### **Definition of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### **Code of Ethics**

#### **Principles**

Internal auditors are expected to apply and uphold the following principles:

##### **1. Integrity**

The integrity of internal auditors establishes trust and provides the basis for reliance on their judgment.

##### **2. Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments

##### **3. Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

##### **4. Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

### **Rules of Conduct**

#### **1. Integrity**

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

## 2. Objectivity

### Internal auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## 3. Confidentiality

### Internal auditors:

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

## 4. Competency

### Internal auditors:

4.1 Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing* contained within the International Professional Practice Framework (IPPF) or Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.